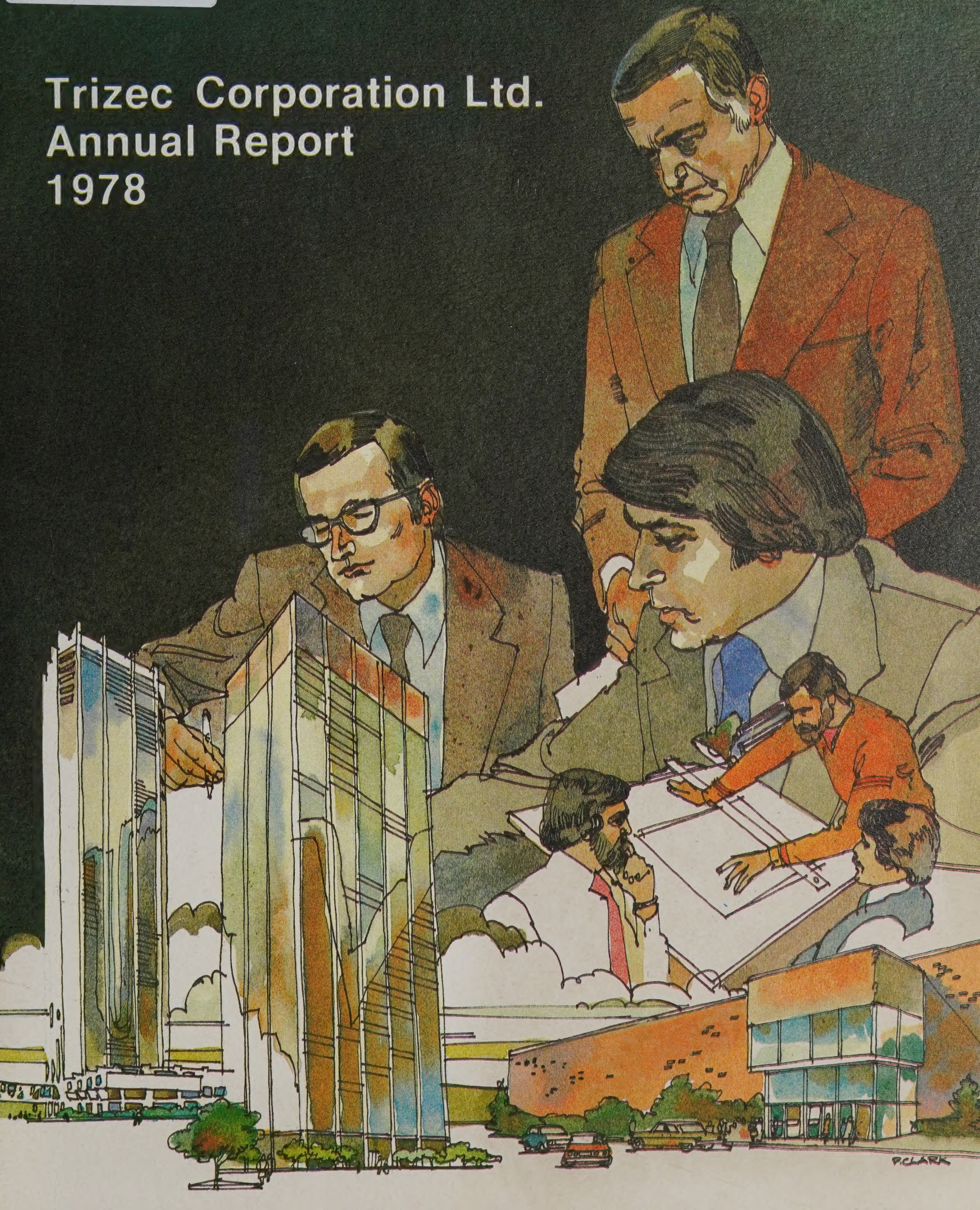
Trizec Corporation Ltd.
Annual Report
1978



The 40-storey tower of Scotia Centre, the tallest building in the City, continues to be one of the outstanding features of the ever-changing Calgary skyline. Other Trizec properties shown are the Royal Bank Building (left) and Calgary Place (right).

Trizec Corporation Ltd. and Subsidiary Companies

FINANCIAL HIGHLIGHTS

	year ended October 31, 1978	1977
Cash Flow from Operations	$ 27,276,000	$19,015,000
Per Common Share*— basic	$2.40	$2.08
— fully diluted	$2.29	$1.99
Net Income	$ 8,400,000	$ 4,824,000
Per Common Share*— basic	60.9c	51.1c
— fully diluted	60.4c	51.1c
Gross Revenue	$201,201,000	$173,202,000
Total Assets	$956,749,000	$931,607,000
Shareholders' Equity	$203,360,000	$178,106,000
Common Shares Outstanding at October 31	10,570,000	10,555,000
Average Common Shares Outstanding	10,560,000	9,050,000
Approximate Number of Common Shareholders	2,764	2,901
Dividends		
Per Common Share— declared July 6, 1978 (May 26, 1977)	27.5c	25.0c
— declared December 20, 1978 (December 19, 1977)	27.5c	25.0c
	55.0c	50.0c

*Per share calculations have been calculated after providing for preferred share dividends on the accrual basis and on the weighted average number of common shares outstanding.

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Si vous préférez recevoir ce rapport en français, veuillez vous adresser au secrétaire, La Corporation Trizec Ltée, 5 Place Ville Marie, Montréal, Québec H3B 2G6

PRESIDENT'S MESSAGE

I am pleased to report that the Company had most satisfactory increases in earnings and cash flow during the 1978 fiscal year. I expect the results for 1979 to compare favourably with those of 1978 in spite of present indications of a relatively slow rate of general business growth in both Canada and the U.S.A., and the high interest rates being experienced in both countries.

The increases in earnings and cash flow have resulted from certain newly completed properties in the Company's portfolio coming on-stream for accounting purposes, and from improved returns from existing properties. I am also pleased to report that our annual dividend rate has been increased from 50c to 55c per common share.

The gross book value of income-producing properties at fiscal year-end was $813,781,000 compared to $773,281,000 a year earlier. No major changes were made in the composition of the Company's property portfolio; however, in accordance with the Company's policy of investing in prime office buildings and shopping centres, certain minor properties which were incompatible with this objective were sold during the year. Office buildings continue to constitute the major portion of the Company's assets, followed by shopping centres, retirement lodges and nursing homes, and mobile home parks.

A predominant aspect of the Company's activities during the year was the commencement of construction on new developments, many of which were still in the planning stage at the beginning of the year. In the early phases of construction are office buildings in Calgary and Winnipeg, and a regional shopping centre in St. Vital, also in Winnipeg. Due for completion this year are additions to the Yorkdale, Scarborough and Halifax Shopping Centres. Recently completed was the addition of retail space and a parking garage

Harold P. Milavsky

to Brunswick Square in Saint John, N.B., and the Company's first retirement lodge in the U.S.A. at Orlando, Florida.

This development activity represents an investment by the Company and its joint venture partners of upwards of $175 million. The new properties will make a significant contribution to future earnings and cash flow. The Company has also reached agreement in principle with General Motors Corporation for the joint development of an office and retail complex in Detroit and an early start on construction is expected. We expect to commence construction this year on a 160,000 square foot office building during the first

phase of developing 'Pershing Square' in Kansas City, Missouri. Other development proposals are under active consideration for both Canada and the U.S.A.

A substantial portion of the long-term financing associated with the Company's development activity was committed at fixed interest rates with long-term mortgage lenders before the increase in interest rates to current levels. The Company has thus reduced its exposure to the restraints that high interest rates impose.

Subsequent to the year-end the Company leased the Van-Air Marina, its 373 room hotel near the Vancouver Airport, to Delta Hotels Limited which assumed management on February 1, 1979. Arrangements were also completed since the year-end for the acquisition of a 50 per cent interest in the Southcentre regional shopping centre in Calgary.

The Company continues to investigate other proposals for acquiring properties which are suitable for inclusion in its portfolio.

There are disturbing indications, however, that the opportunities for growth, whether by development or acquisition, will diminish in Canada as a result of the increasing trend towards regionalism which, unless checked, could lead to divisive economic restrictions.

The Company now has 24 per cent of its income producing property assets in the U.S.A. and every reason to expect that an even larger share of its future growth will originate there.

The Canadian Institute of Chartered Accountants (C.I.C.A.) has recently issued new Recommendations covering the translation of foreign currency financial statements. Compliance with these Recommendations, which will be applicable to the Company's financial statements for the fiscal year ended October 31, 1980 would distort our actual financial results.

The Company together with other Canadian real estate companies which have U.S.A. property investments is currently reviewing with the C.I.C.A. methods of recording the translation of foreign currencies which would more truly reflect the financial results of U.S.A. operations. With a significant portion of the Company's assets located in the U.S.A., it is essential that a satisfactory resolution be reached.

Mr. Max Keyworth, who served on the Board of Directors from 1965 to 1968, was re-appointed a Director on February 8, 1979. He replaced Mr. David Llewellyn who resigned from the Board with effect from October 31, 1978, after serving as a Director for 8 years and whose contribution over the years has been of particular value to the Company.

The progress made by the Company would not have been possible without the continued dedication of its officers and employees which I hereby acknowledge on behalf of the Directors and myself.

HAROLD P. MILAVSKY
President and Chief Executive Officer

February 8, 1979

REVIEW OF OPERATIONS

FINANCIAL

Gross revenue increased to $201,201,000 in 1978 from $173,202,000 the previous year. Net income for 1978 increased to $8,400,000 or 61c per common share from $4,824,000 or 51c per common share in 1977. Cash flow from operations increased to $27,276,000 or $2.40 per common share in 1978 from $19,015,000 or $2.08 per common share in 1977. Net income and cash flow per common share have been calculated after deducting preferred dividends on an accrual basis. The semi-annual dividends declared July 6, 1978 and December 20, 1978 were each increased from 25c to 27½c per common share resulting in a total dividend of 55c for 1978 compared to 50c per common share for the previous year.

These results reflect the continued improvement in returns from the portfolio of income-producing properties both in Canada and the U.S.A. and the bringing on-stream for accounting purposes of certain newly completed properties. The results have also benefitted from the significant improvements made to the Company's financial structure in 1977 and continued into 1978 as described below.

On September 7, 1978, the Company issued by private placement a further $24,000,000 floating rate retractable Preferred Shares Series A, with the proceeds being used principally for the retirement of short term loans. This issue, together with retained income and the previous issues in 1977 of $30,000,000 Preferred Shares Series A and $32,000,000 Common Shares, has increased shareholders' equity during the last two financial years from $116,029,000 to $203,360,000.

On April 5, 1978 the Company issued to the public $25,000,000 10½% Senior Debentures maturing June 1, 1998, retractable at the option of the holder on June 1, 1988. The proceeds were used to repay short term indebtedness of the Company.

During the year long term financing was drawn down on completed developments and long term financing commitments arranged on a substantial portion of the development program presently underway. These financings and the issues of equity and senior debentures described above, have significantly reduced the Company's short term debt and its exposure to interest rate increases. The Company has undrawn contractual lines of credit in excess of $130,000,000 available to take advantage of investment opportunities when they arise.

PLANNING

The Company's primary objective is to develop, own and manage income-producing properties over the long term. Development is undertaken for the Company's own account so as to ensure that its portfolio continues to meet the desired standards of quality. Fundamental to achieving this objective is the planning which establishes the most promising opportunities for development, determines the most appropriate use of sites and structures the basic business arrangements.

Two projects which are progressing from the planning stage to the development stage are Pershing Square, Kansas City, and the joint development with General Motors Corporation of a major office complex in Detroit, each of which is described in further detail under the development section of this report.

Planning is presently underway for additional phases to Brunswick Square in Saint John, N.B., and Place Quebec in Quebec City. We are also reviewing the feasibility of expanding the Carlingwood Shopping Centre in Ottawa.

Unique to construction in Calgary is the "Ice Wall" being used for the Fifth and Fifth office building. Excavation is being assisted by the freezing of the perimeter wall with a saline solution controlled to a temperature of -30° C.

Kansas City Railway Terminal is central to the 57 acre tract planned for redevelopment by the Company. Identified to its right is the site for Phase I of Pershing Square – an eight storey, 160,000 square foot office building.

Planning is progressing for the development of our sites situated on the corners of Bay and Dundas in Toronto, and Dorchester and Beaver Hall Hill in Montreal.

Recently enacted Provincial legislation in Quebec has had the effect of re-zoning 790 acres of undeveloped residential land owned by the Company in the City of Brossard for agricultural use. We are working with the City of Brossard to make representations to the Provincial Government to exempt the major portion of this land from these new zoning regulations.

The Company and the City of St. John's, Newfoundland are currently disputing their respective obligations arising from the proposed development of a 191,000 square foot downtown site. It is expected that the dispute will be settled by arbitration as provided for in the agreement between the parties.

The Company continues to monitor and pursue other development opportunities in Canada and the U.S.A.

DEVELOPMENT

The Company initiated new property developments of approximately $175 million during the year. Highlights are:

Detroit The Company and General Motors Corporation have agreed in principle on the development, across the street from our Fisher Building, of a 21 storey office tower of 350,000 square feet, a two storey retail shopping mall of 122,000 square feet and a 9 level parking deck for 1,700 cars. A high rise apartment building is also being considered as a possible addition to the complex. General Motors will be the lead tenant as well as a joint venture partner in the development itself.

Kansas City Construction will begin shortly on the first phase of Pershing Square, a redevelopment project in which the Company and Kansas City Terminal Corporation are joint venture partners. The first phase, an 8 storey office building of 160,000 square feet and 3 levels of parking, is located across the street from one of the City's principal landmarks, Crown Centre.

Calgary Construction has begun on "Fifth & Fifth", a 32 storey office tower with 465,000 square feet of office and ancillary space at the corner of Fifth Avenue and Fifth Street in the City's "Oil Patch" where many of the country's leading petroleum companies have their offices. Texaco Canada and C.D.C. Oil & Gas will be major tenants. Completion is scheduled for 1980.

Winnipeg Construction has begun on a 31 storey office tower with 535,000 square feet of office space and a shopping concourse with 70,000 square feet of retail space, at the corner of Portage and Main. The Winnipeg Commodity Exchange will be a principal tenant. Provision has been made for the addition of a second tower and a hotel. The development, known as Winnipeg Square, is

The first two major concrete pours for the Winnipeg Square office building have been completed – forming a part of the ceiling of the 70,000 square foot shopping area and the main floor of the office tower. The twelve-sided 31 storey tower will dominate Portage and Main.

being built above the new municipal parking facility for 1,000 cars. It is also linked, by an underground concourse, with the three other corners of what is widely known as the Crossroads of Canada. Completion of the first tower and retail facilities is scheduled for 1980.

St. Vital Construction has begun on St. Vital Centre, a 645,000 square foot regional shopping centre in the southern section of Winnipeg. The T. Eaton Company and the Hudson's Bay Company, each of which will have full-line department stores in the Centre, are joint venturers with the Company. Among the other large tenants are Woolco and Canada Safeway. Completion is scheduled for October 1979.

Toronto Construction of a bus terminal, 99,000 square feet of office and 7,000 square feet of retail space is under way at Yorkdale Shopping Centre. Completion is scheduled for the Fall of 1979.

Construction has begun on a 167,000 square foot full-line department store for the Hudson's Bay Company at Scarborough Shopping Centre as well as an additional 70,000 square feet of retail space which will increase retail space in the Centre to 937,000 square feet. The T. Eaton Company and Simpsons Limited have had full-line department stores in the Centre since it was opened in 1973.

Halifax Additions to the Halifax Shopping Centre of 51,000 square feet of retail space and 45,000 square feet of office space have increased total rentable space at the Centre to 544,000 square feet. This is the second expansion undertaken at this shopping centre.

Orlando The Company's first retirement home in the U.S.A., at Orlando, Florida, was opened for occupancy early in June of 1978. It has accommodation for 180 guests.

OFFICE BUILDINGS

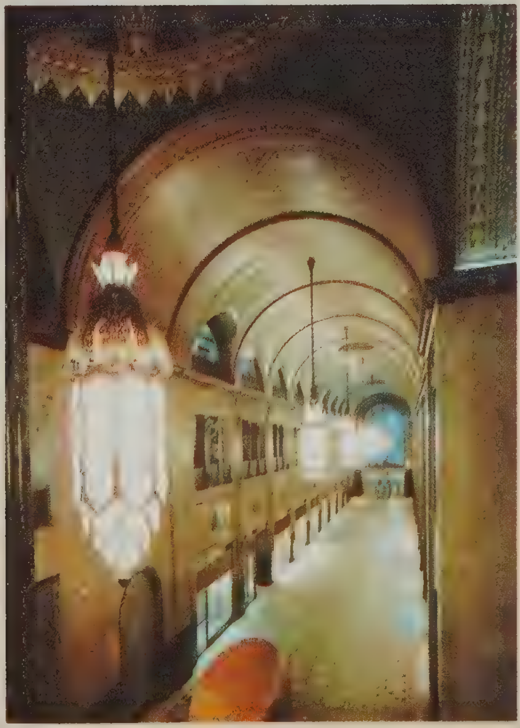
The office buildings in the Company's portfolio account for 59.5 per cent of income-producing property assets. They are located in the downtown core of every important Canadian city, from Halifax to Vancouver, and in Atlanta, Detroit and Los Angeles in the U.S.A.

Their total book value at fiscal year-end was $484,385,000. The total rentable space of income-producing office buildings under administration is 15,709,000 square feet, of which 35 per cent is in the U.S.A. and 65 per cent in Canada. Upon completion of the current phase of the Company's development program, rentable office space will increase to 17,614,000 square feet.

The newer office buildings have been developed in association with retail facilities as well as, in many instances, hotels, convention centres and parking facilities. Their tenants include the head offices and support facilities of a broad cross section of leading businesses and institutions, with a blend of long term and short term leases. All leases contain escalation clauses which require the tenants to pay increases in operating expenses and real estate taxes.

All are located where they achieve the maximum benefit from traffic flows. Many of the office buildings in eastern Canada have below grade access to neighbouring buildings and transportation facilities. In western Canada many have above grade access by way of enclosed all-weather walkways.

The Company's Fisher Building known as Detroit's "Golden Tower" celebrated its 50th Anniversary on October 16, 1978.



The ceilings are hand-painted frescoes, trim work is solid bronze and brass, and the walls are marble.

SHOPPING CENTRES

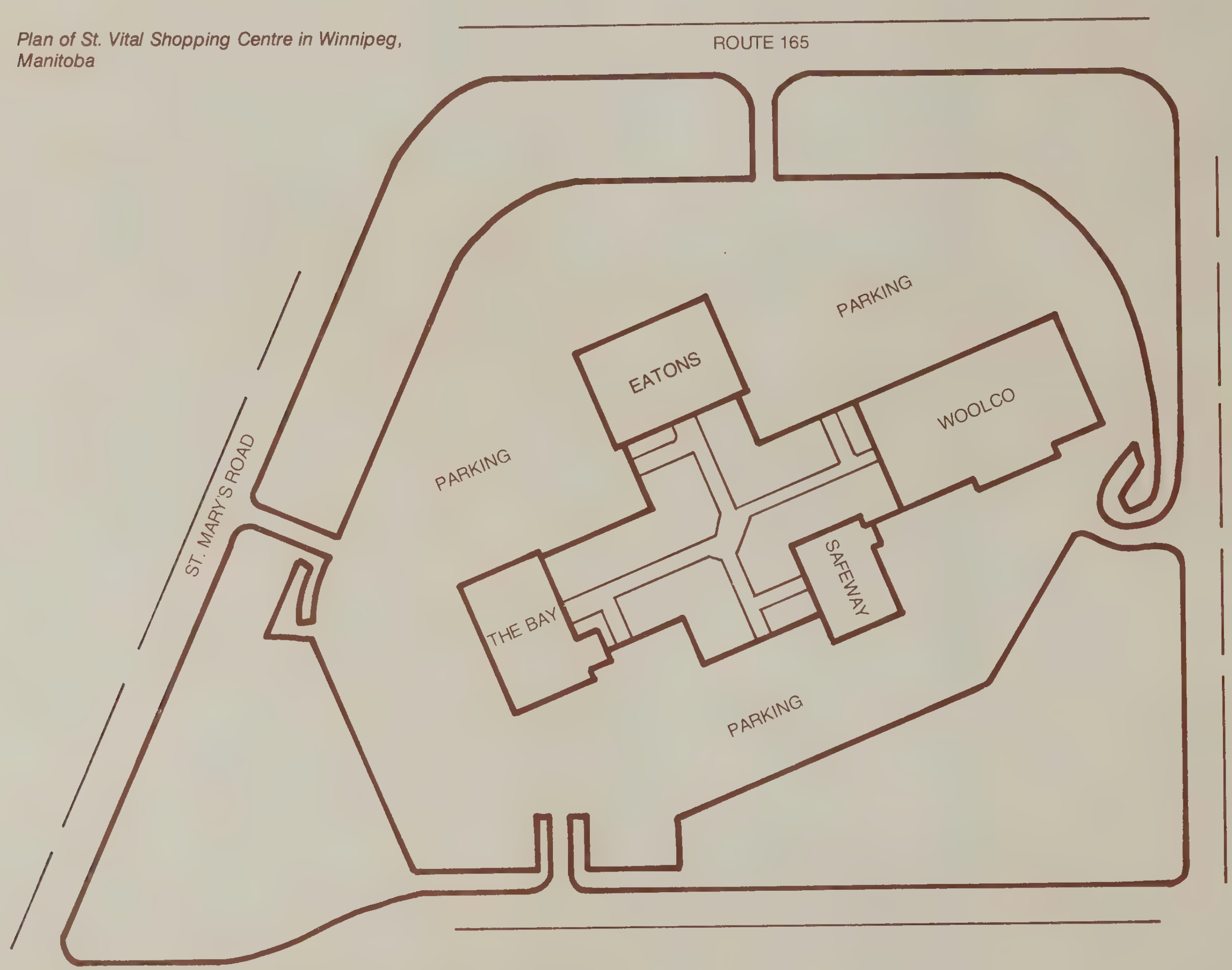
Shopping centres account for 19 per cent of income-producing property assets. They have a total of 5,368,000 square feet of rentable space, virtually all of which is fully leased. Most shopping centre tenants pay rents based on a percentage of gross sales in addition to a minimum rent enabling the Company to participate in the retail sales growth of its centres.

The shopping centres are located, for the most part, in those urban areas which have experienced rapid population growth. Many of them are capable of supporting further expansion of retail space as their markets mature, or the addition of office and other facilities.

On January 18, 1979, the Company acquired a 50 per cent interest in Southcentre, a regional shopping centre of 541,000 square feet in Calgary. The major tenants of this shopping centre include the Bay, Eatons and Safeway. With this acquisition the Company now has 14 shopping centres in Canada and one in the U.S.A.

This acquisition and the completion of retail space now under development will increase total rentable space to 6,974,000 square feet.

Plan of St. Vital Shopping Centre in Winnipeg, Manitoba



Southcentre, opened in 1974 in southwest Calgary, is a two-level mall containing over 130 retail tenants anchored by the Bay and Eatons.

RETIREMENT LODGES AND NURSING HOMES

The Company owns 12 retirement lodges and 11 nursing homes. Together they account for 8 per cent of income-producing property assets. They offer accommodation for a total of 3,573 guests and have a current occupancy rate of 94 per cent.

The retirement lodges and nursing homes are developed and administered under the name of Central Park Lodges of Canada, the largest organization in Canada specializing in accommodation for the elderly. The retirement lodges are specially designed to accommodate guests requiring some degree of personal or nursing care in their daily living.

The initial response to the Company's first retirement lodge in the U.S.A., the 180 guest unit at Orlando, Florida, has been slower than projected; however, it is expected that occupancies will improve as the Company's concept of care for the elderly becomes accepted in that marketplace. Thorncliffe 1, a nursing home in Toronto which has been converted into a retirement lodge, came on stream during the year with a waiting list of guests. A new retirement lodge, Ottawa 2, also came on stream during the year.

MOBILE HOME PARKS

The Company's mobile home parks, developed and administered by a subsidiary, Mobile Home Communities Inc. of Denver, account for 7 per cent of the Company's income-producing property assets. The 30 parks, of which more than 80 per cent are located in Florida, Arizona, Nevada and Colorado, the four states experiencing the fastest population growth in the U.S.A., have a total of 10,564 spaces and a current occupancy rate of 98 per cent.

The parks have been developed to the highest standards of quality accommodation resulting in significant annual increases in their contribution to the Company's earnings.

MISCELLANEOUS PROPERTIES

The Company has a 50 per cent interest in Quebec Hilton, a 572 room hotel which is an integral part of Place Quebec, the Company's office and retail complex in Quebec City. Place Quebec also includes the city-owned Convention Centre to which the hotel has direct underground access. The hotel continues to suffer from low occupancies which adversely affect earnings from the hotel portfolio.

The Company owns Van Air Marina, a 373 room hotel near the Vancouver airport. This hotel was leased to Delta Hotels Limited on February 1, 1979 under a net net lease which ensures a satisfactory annual return to the Company. Management of the hotel was assumed by Delta with effect from the same date.

The Company has a 50 per cent interest in the Regina Inn, Regina, Saskatchewan. The 240 room hotel also has 40,000 square feet of commercial space which is fully leased.

Other miscellaneous properties include three apartment houses in Halifax with a total of 761 units which are fully leased.

Stonehedge, a 192 space mobile home community in Tarpon Springs, Florida, is one of eleven such communities owned by the Company in that State.

A view of the 234 room Windermere Central Park Lodge in Vancouver. ▲

SUMMARY OF PROPERTY INTERESTS

(As at October 31, 1978, Company's percentage interest is 100% unless otherwise noted)

OFFICE BUILDINGS

	Rentable sq. ft.[1]
Halifax	
Maritime Centre[2]	427,000
Centennial Building	163,000
Halifax Insurance Building	83,000
Saint John, New Brunswick	
Brunswick Square (29.5%)[2]	418,000
Quebec City	
Place Quebec — Phases I and II	787,000
Montreal	
Place Ville Marie	2,931,000
2020 University (85%)[6]	530,000
BCN Building	511,000
360 St. James Street	314,000
Domtar House	197,000
Port St. Laurent	179,000
Peel Centre Building	164,000
Orpheum Building	157,000
Drummond Medical Building	136,000
5165 Queen Mary Road Building	63,000
Toronto	
180 Wellington Street West Building	249,000
Winnipeg	
Winnipeg Square[2]	605,000
Edmonton	
CN Tower	368,000
Centennial Building	326,000
Calgary	
Calgary Place (50%)	733,000
Scotia Centre (50%)	620,000
Fifth & Fifth (75%)[2]	465,000
Royal Bank Building	360,000
Pacific 66 Plaza	230,000
Texaco Building (75%)	159,000
9th Avenue Building	87,000
8th Avenue Building[5]	10,000
Vancouver	
Royal Centre	846,000
Detroit	
First National Building	944,000
Fisher Building	920,000
New Center Building	290,000
Alexander and Alexander Building	23,000
Los Angeles	
Marina Towers (40%)	659,000
Encino Gateway	631,000
Hollywood Center	481,000
Airport Freeway	467,000
Valley Center	369,000
Wilshire Center	346,000
Atlanta	
Peachtree Center Tower (67%)	376,000
	17,624,000

[1]Includes parking where applicable
[2]Classified as property under development
[3]Excluding Simpson's premises
[4]Including Burdines' premises
[5]Sold November, 1978
[6]Purchased remaining 15% December 1978
[7]Expansions currently under development

SHOPPING CENTRES

	Rentable sq. ft.
Halifax	
Halifax Shopping Centre[7]	544,000
Dartmouth	
Dartmouth Shopping Centre	104,000
Montreal	
Les Galeries Normandie	241,000
Jean Talon Shopping Centre	65,000
Ottawa	
Carlingwood Shopping Centre	290,000
Toronto	
Yorkdale Shopping Centre[3,7]	1,010,000
Scarborough Shopping Centre[3,7]	937,000
Markham Place (50%)	264,000
Winnipeg	
St. Vital (50%)[2]	645,000
Unicity Mall (67%)	477,000
Vancouver	
Lougheed Mall Shopping Centre (50%)	491,000
Brentwood Shopping Centre (50%)	441,000
Crown Zellerbach	56,000
Clearwater	
Clearwater Mall (67%)[4]	868,000
	6,433,000

RETIREMENT LODGES

	Guest Capacity
Quebec	
St. Lambert	210
Ontario	
Albion Road, Toronto	256
Kitchener	208
Queen's Drive, Toronto	208
Thorncliffe No. 1, Toronto	168
Windsor	156
Ottawa No. 2	150
Thorncliffe No. 2, Toronto	150
Ottawa No. 1	130
Jane Street, Toronto	126
London	109
Thunder Bay	107
Charlotte Villa, Toronto	80
Hamilton	75
Manitoba	
Winnipeg No. 1	277
Winnipeg No. 2	215
Brandon	89
Alberta	
Edmonton	134
Calgary	123
Jasper Place	100
Grande Prairie	88
British Columbia	
Windermere Lodge, Vancouver	234
Florida	
Orlando[2]	180
	3,573

MOBILE HOME COMMUNITIES

Location	Name	No. of Sites
Canada		
Winnipeg	Southglen (50%)	364
United States[1]		
Arizona	Catalina Village	379
Arizona	Hacienda de Valencia	364
Arizona	Central Park	293
Arizona	Capri Village	281
Arizona	Papago Peaks Village	281
Arizona	Mesa Village	199
Colorado	Holiday Hills Village	758
Colorado	Hillcrest Village	603
Colorado	Cimarron	327
Colorado	Golden Terrace Village	264
Colorado	Pueblo Grande Village	252
Colorado	Holiday Village	240
California	Concorde Cascade	282
California	Lamplighter Village	270
California	Rancho Valley	140
Florida	Palm Lake Estates	565
Florida	Windmill Fort Myers	479
Florida	Windmill Sarasota	470
Florida	Regency Cove	437
Florida	Carriage Cove	418
Florida	Lake Haven	379
Florida	Bay Aristocrat	361
Florida	Holiday Parks	344
Florida	East Bay Oaks	329
Florida	Eldorado	227
Florida	Stonehedge on the Hill[2]	192
Minnesota	Camelot Acres	319
Montana	Casa Village	483
Nevada	Bonanza Village	364
Oklahoma	Rockwood Village	264
		10,928

[1]Company's interest is 99.7%.
[2]Classified as property under development.
[3]Includes 40,000 sq. ft. commercial space.

HOTELS

	No. of Rooms
Quebec Hilton, Quebec (50%)	572
Van Air Marina, Richmond, B.C.	373
Regina Inn, Regina (50%)[3]	240
	1,185

APARTMENTS

	No. of Suites
Halifax	
Park Victoria Apartments	400
Spring Garden Terrace Apartments	201
Embassy Tower	160
	761

OTHER PROPERTIES

Other properties include land held for future development, an industrial park and other miscellaneous buildings.

CONSOLIDATED BALANCE SHEET
as at October 31, 1978

ASSETS	1978 ($000's)	1977 ($000's)
Properties (note 3)		
Income producing	813,781	773,281
Under development	69,005	73,456
Held for development	39,993	43,920
	922,779	890,657
Accumulated depreciation	53,776	45,221
	869,003	845,436
Investments (note 4)	34,108	30,586
Cash	2,303	3,654
Accounts receivable (note 5)	30,861	34,381
Deposits	949	863
Prepaid expenses and deferred charges	19,525	16,687
	956,749	931,607
LIABILITIES		
Long term debt, secured (note 6)	655,378	656,004
Accounts payable and accrued liabilities	46,203	45,127
Bank advances, secured	2,535	12,039
Deferred income taxes	49,248	39,880
Minority interest	25	451
	753,389	753,501
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	184,274	160,088
Contributed surplus	780	780
Retained income	18,306	17,238
	203,360	178,106
	956,749	931,607

Signed on behalf of the board

Harold P. Milavsky, Director
E. J. Courtois, Director

CONSOLIDATED STATEMENT OF INCOME
for the year ended October 31, 1978

	1978 ($000's)	1977 ($000's)
Operating revenue	199,283	171,030
Interest and other income	1,918	2,172
	201,201	173,202
Operating expense	83,813	70,749
General and administrative expense	9,192	8,401
Property taxes	30,142	26,977
Interest	51,031	48,379
	174,178	154,506
Operating profit	27,023	18,696
Depreciation	9,304	8,182
Minority interest	18	42
Income taxes	9,378	5,752
	18,700	13,976
Net operating income	8,323	4,720
Non-operating income (note 8)	77	104
Net income	8,400	4,824
Per common share (note 9)		
Net operating income — basic	60.1c	50.0c
— fully diluted	59.7c	50.0c
Net income — basic	60.9c	51.1c
— fully diluted	60.4c	51.1c

CONSOLIDATED STATEMENT OF RETAINED INCOME
for the year ended October 31, 1978

	1978 ($000's)	1977 ($000's)
Net income	8,400	4,824
Dividends — preferred	1,788	—
— common (52.5c per common share, 1977 — 50c)	5,544	4,748
	1,068	76
Retained income at beginning of year	17,238	17,162
Retained income at end of year	18,306	17,238

CONSOLIDATED STATEMENT OF CASH FLOW FROM OPERATIONS
for the year ended October 31, 1978

	1978 ($000's)	1977 ($000's)
Net operating income	8,323	4,720
Add non-cash items:		
Depreciation	9,304	8,182
Deferred income taxes	9,378	5,648
Other	271	465
Cash flow from operations	27,276	19,015
Per common share (note 9)		
Basic	$2.40	$2.08
Fully diluted	$2.29	$1.99

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended October 31, 1978

	1978 ($000's)	1977 ($000's)
SOURCE		
Cash flow from operations	27,276	19,015
Sale of properties net of debt of $1,615,000 (1977 — $3,245,000)	1,932	4,386
Stock issued — preferred shares	24,000	30,000
— common shares	186	32,001
Long term debt — net	13,421	15,649
	66,815	101,051
USE		
Mortgage and sinking fund repayments	15,774	14,341
Dividends paid — preferred	1,788	—
— common	5,544	4,748
Notes converted	10	12,332
Construction and development of properties	34,100	40,291
Property acquisitions and joint ventures net of debt assumed of $3,794,000 (1977 — $7,857,000)	2,885	3,938
Funds retained in (obtained from) other assets and liabilities	(1,439)	4,594
	58,662	80,244
Net decrease in bank advances net of cash on hand	8,153	20,807

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
as at October 31, 1978

1. Accounting Policies

(a) General
The company's accounting policies and its standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies (CIPREC) of which it is a member.

(b) Principles of consolidation
The consolidated financial statements include:
(i) The accounts of all companies in which the company holds an interest in excess of 50%;
(ii) The accounts of all incorporated and unincorporated joint ventures in which the company holds an interest, to the extent of the company's interest in their respective assets, liabilities, revenue and expense.

(c) Foreign exchange
Translation of United States dollars has been made at the following rates of exchange:
Properties and investments at the rates prevailing at the dates of acquisition;
Long term debt at the rates prevailing at the dates of receipt;
Other assets and liabilities at the rate prevailing at the date of the balance sheet;
Revenue and expense at the average rate for the year.

(d) Properties
(i) Properties are valued at cost (including development expenses) plus the attributable excess of the cost of shares of certain subsidiaries over the net asset value acquired.
(ii) The cost of properties under development and properties held for development includes direct carrying costs such as mortgage interest, property taxes, and the applicable portion of administrative overhead and interest on general borrowings. Properties under development are deemed to become income producing upon achieving a break-even point in the net cash flow (after debt amortization) within a reasonable period of time having regard for the nature of the asset.
(iii) Depreciation is based on the sinking fund method under which an increasing amount consisting of a fixed annual sum together with interest compounded at the rate of 4% per annum is charged to income so as to fully depreciate the buildings and improvements over their estimated lives of from 40 to 60 years.

2. Joint Ventures

The following amounts, included in the consolidated financial statements, represent the company's proportionate interest in incorporated and unincorporated joint ventures and partnerships:

	1978 ($000's)	1977 ($000's)
Assets	158,034	139,929
Liabilities	99,005	98,687
Revenue	29,093	21,685
Expenses	25,997	19,420

The company is contingently liable for obligations of its associates in joint venture developments. In each case, all of the assets of the joint venture are available for the purpose of satisfying such obligations.

3. Properties

(a) The following net development expenses have been capitalized:

	1978 ($000's)	1977 ($000's)
Operating expense	3,241	4,651
General and administrative expense	1,733	2,026
Property taxes	1,671	2,582
Interest	9,492	13,569
	16,137	22,828
Less operating revenue	6,524	10,708
	9,613	12,120

(b) Properties carried at net book value of approximately $421,115,000 are situated on land held under leases or agreements expiring in the years 2022 to 2086.

(c) The company's share of further expenditures required to complete development projects will amount to an estimated $85,126,000 for which financing has been arranged.

4. Investments

	1978 ($000's)	1977 ($000's)
Notes receivable on balances of sale	25,586	23,670
Advances on behalf of joint venture partners	8,436	6,693
Other	86	223
	34,108	30,586

5. Accounts Receivable

Accounts receivable include $6,734,000 (1977 — $6,800,000) provided to a trustee under the terms of employee share purchase plans, loaned to purchase fully paid common shares of the company. The shares are held as security for the loans.

6. Long Term Debt, secured

Long term debt maturities are:

	Average weighted interest rates as at October 31, 1978 %	Years ending October 31, 1978	1979	1980	1981 ($000's)	1982	1983	Subsequent	Total**
Debt subject to regular amortization —									
Mortgage loans and bonds	8.6	—	9,455	18,531	13,021	13,406	16,758	377,218	448,389
Debt not subject to regular amortization —									
Mortgages	8.9	—	28	2,808	623	1,803	300	6,282	11,844
Bank loans	11.1	—	2,025	350	300	300	900	24,045	27,920
Notes payable	7.9	—	7,712	1,200	2,225	423	240	1,744	13,544
Senior debentures	10.4	—	3,091	3,512	4,200	9,125	2,200	67,920	90,048
Income debentures	6.7	—	—	10,000	—	—	25,000	10,000	45,000
Construction and development loans*	10.7	—	—	—	—	—	8,414	1,241	9,655
Convertible notes, unsecured	7.0	—	—	—	—	—	—	8,978	8,978
Maturities as at October 31, 1978		—	22,311	36,401	20,369	25,057	53,812	497,428	655,378
Maturities as at October 31, 1977		21,040	50,230	30,005	25,974	32,469	—	496,286	656,004

*Construction and development loan maturities reflect the terms of long term financing committed subsequent to October 31, 1978.

**Long term debt includes $211,898,000 (1977 — $229,583,000) repayable in United States dollars, and $20,000,000 (1977 — $20,000,000) due to the controlling shareholder.

7. Capital Stock

	1978 ($000's)	1977 ($000's)
(a) Authorized		
Preferred Shares of par value of not less than $1 or more than $100	80,000	30,000
Common 12,000,000 (1977 — 12,000,000) shares without nominal or par value	170,000	170,000
	250,000	200,000
(b) Issued		
Preferred 540,000 (1977 — 300,000) shares of $100 par value	54,000	30,000
Common 10,569,503 (1977 — 10,554,673) shares	130,274	130,088
	184,274	160,088

(c) Dividends on preferred shares are cumulative and payable quarterly at an annual rate of 1½% plus half of the prime lending rate. For the year ended October 31, 1978 the average rate was 5.86% per annum. One year after request by a holder for redemption the dividend rate would change with respect to such holder to 3% plus half of the prime lending rate and the shares of such holder would be retired by 10% at the end of the second year, by 20% at the end of the third year, by 30% at the end of the fourth year, and by 40% at the end of the fifth year after receipt of such request.

The company has the right to redeem at par all shares of a holder requesting redemption after not less than one year's notice from such holder; and after September 30, 1980, to redeem at par all or part of the shares on six months notice by the company.

(d) During the year, the company's issued capital was increased by:

	1978 (shares)	1977 (shares)	1978 ($000's)	1977 ($000's)
(i) common shares on the conversion of debt	730	822,102	10	12,332
(ii) common shares on the exercise of employee and share option plans	14,100	210,000	175	2,078
(iii) common shares on the one share for five rights issue at $10 per share	—	1,759,100	—	17,591
(iv) preferred shares	240,000	300,000	24,000	30,000
			24,185	62,001

(e) As at October 31, 1978 1,065,037 common shares were reserved for conversion of certain debt, subscription privileges of share purchase warrants and the exercise of share options as follows:

	Common shares reserved	Conversion or exercise price	Exercisable
$8,024,336 7% convertible notes due December 31, 1990	561,539	$14.29*	On or before December 31, 1980
$953,044 7% convertible (1971) notes due December 31, 1990	66,698	14.29*	On or before December 31, 1980
2,250,000 share purchase warrants	225,000	19.05*	On or before February 1 1979
Share options: granted — December 21, 1973	13,200	21.60	20% annually to December 21, 1978
— June 7, 1974	2,000	18.45	20% annually to June 7, 1979
— March 17, 1977	16,000	11.02	20% annually to March 17, 1982
— April 21, 1977	4,000	11.70	20% annually to April 21, 1982
— July 6, 1978	30,000	13.50	20% annually to July 6, 1983
:reserved but not granted	19,100		
1977 Management Share Purchase Plan :reserved but not granted	127,500		
	1,065,037		

*subject to adjustment

8. Non-operating income

	1978 ($000's)	1977 ($000's)
Net gain from sales of properties net of deferred income taxes of $222,000 (1977 — $76,000)	627	704
Provision for estimated diminution in the economic value of certain undeveloped and other properties net of deferred income taxes of $393,000 (1977 — $200,000)	(550)	(600)
	77	104

9. Per Share Calculations

(a) Net income and cash flow from operations per common share have been calculated after providing for preferred share dividends on an accrual basis and on the weighted average number of shares outstanding.

(b) Fully diluted net income and cash flow per common share have been calculated as if the conversion of convertible notes and the exercise of share purchase warrants and options had occurred at the beginning of the year and the funds therefrom utilized to liquidate indebtedness carrying an average 7¼% interest rate.

10. Remuneration of Directors and Officers

The following remuneration was paid to 17 directors and to 19 officers of whom 5 were directors (1977 — 19 directors, 19 officers of whom 6 were directors).

	1978	1977
Directors	$ 81,550	$ 92,310
Officers	$930,349	$938,602

11. Anti-inflation Legislation

Until October 13, 1978 the company was subject to the terms of the Canadian Anti-inflation legislation. Management believes the company has complied with the terms of this legislation.

AUDITOR'S REPORT

The Shareholders
Trizec Corporation Ltd.

We have examined the consolidated balance sheet of Trizec Corporation Ltd. as at October 31, 1978 and the consolidated statements of income, retained income, cash flow from operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 20, 1978

Touche Ross & Co.
Chartered Accountants

ANALYSIS OF PROPERTY INTERESTS

				Residential Properties					
	Total	Office Buildings	Shopping Centres	Retirement Lodges	Mobile Homes	Hotels	Apartment Buildings	Properties Under Devel-opment	Properties Held For Devel-opment
					($000's)				
GROSS BOOK VALUE As at October 31, 1978									
Maritimes	83,130	9,270	14,216	—	—	—	16,062	40,668	2,914
Quebec	284,823	229,038	7,740	7,736	—	13,638	—	5,874	20,797
Ontario	143,892	7,173	86,033	39,896	—	—	—	6,381	4,409
Western	198,288	113,964	28,626	20,939	1,362	21,001	—	10,259	2,137
U.S.A.	212,646	124,940	17,218	—	54,929	—	—	5,823	9,736
Total	922,779	484,385	153,833	68,571	56,291	34,639	16,062	69,005	39,993
As at October 31, 1977	890,657	459,023	153,274	59,549	51,421	33,979	16,035	73,456	43,920
As at October 31, 1976	840,095	415,416	123,024	45,801	53,560	33,044	16,007	113,980	39,263

	Total	Office Buildings	Shopping Centres	Retirement Lodges	Mobile Homes	Hotels	Apartment Buildings	Other Income
INCOME For the year ended October 31, 1978								
Operating revenue	199,283	101,367	32,790	27,995	16,606	16,650	3,269	606
Operating expense	83,813	32,269	7,783	20,114	7,564	14,886	1,197	—
Property taxes	30,142	21,655	5,094	1,072	1,006	1,023	292	—
Net operating income before interest and general and administrative expense	85,328	47,443	19,913	6,809	8,036	741	1,780	606
For the year ended October 31, 1977	73,304	39,935	16,564	6,152	6,528	785	1,668	1,672
For the year ended October 31, 1976	69,156	37,645	16,272	4,933	5,564	1,015	1,553	2,174

Trizec Corporation Ltd. and Subsidiary Companies

ELEVEN YEAR FINANCIAL REVIEW

	Year ended October 31							Year ended December 31			
	1978	1977	1976	1975	1974	1973 ($000's)	1972	1971	1970	1969	1968
CONSOLIDATED BALANCE SHEET											
Assets											
Properties	**922,779**	890,657	843,095	867,811	823,009	644,704	562,708	497,220	253,720	243,252	235,657
Accumulated depreciation	**(53,776)**	(45,221)	(37,409)	(34,245)	(27,886)	(21,635)	(17,949)	(13,873)	(9,879)	(8,316)	(6,795)
	869,003	845,436	805,686	833,566	795,123	623,069	544,759	483,347	243,841	234,936	228,862
Investments	**34,108**	30,586	32,933	21,247	9,975	10,763	3,685	3,987	3,658	8,670	—
Other assets	**53,638**	55,585	57,746	66,066	52,415	44,851	40,916	29,086	12,100	10,101	11,796
	956,749	931,607	896,365	920,879	857,513	678,683	589,360	516,420	259,599	253,707	240,658
Liabilities											
Long term debt	**655,378**	656,004	658,349	699,125	650,313	495,227	433,285	379,178	213,079	216,192	204,173
Accounts payable and accrued liabilities	**46,203**	45,127	50,564	44,263	43,781	42,294	33,177	23,956	7,551	8,547	8,986
Bank advances	**2,535**	12,039	36,149	31,012	29,978	18,246	9,843	8,028	—	—	1,451
Deferred income taxes	**49,248**	39,880	34,503	29,136	22,395	16,232	11,093	7,774	—	—	—
Minority interest	**25**	451	771	1,499	1,021	491	465	1,014	213	188	—
	753,389	753,501	780,336	805,035	747,488	572,490	487,863	419,950	220,843	224,927	214,610
Shareholders' equity	**203,360**	178,106	116,029	115,844	110,025	106,193	101,497	96,470	38,756	28,780	26,048
	956,749	931,607	896,365	920,879	857,513	678,683	589,360	516,420	259,599	253,707	240,658
CONSOLIDATED STATEMENT OF INCOME											
Operating revenue	**201,201**	173,202	162,799	173,938	144,364	113,261	104,368	84,799	41,672	37,774	27,982
Expenses	**174,178**	154,506	146,916	156,296	126,496	98,739	92,590	75,774	37,819	34,212	25,567
Operating profit	**27,023**	18,696	15,883	17,642	17,868	14,522	11,778	9,025	3,853	3,562	2,415
Depreciation	**9,304**	8,182	7,579	7,828	6,293	4,541	4,073	3,308	1,698	1,536	1,293
Minority interest	**18**	42	280	479	229	225	168	—	—	—	—
Income taxes	**9,378**	5,752	4,661	6,101	6,382	5,075	3,361	2,336	—	—	—
Net operating income	**8,323**	4,720	3,363	3,234	4,964	4,681	4,176	3,381	2,155	2,026	1,122
Non-operating income	**77**	104	647	(310)	1,092	1,132	45	—	460	706	—
Net income	**8,400**	4,824	4,010	2,924	6,056	5,813	4,221	3,381	2,615	2,732	1,122
CASH FLOW FROM OPERATIONS	**27,276**	19,015	15,950	17,570	17,696	14,254	11,728	9,085	3,913	3,618	2,415
Average number of common shares (000's)	**10,560**	9,050	7,762	7,576	7,385	7,312	7,189	6,368	2,899	2,872	2,148
PER COMMON SHARE											
Net operating income	**$ .60**	$ .50	$ .43	$ .43	$ .67	$ .64	$ .58	$ .53	$ .74	$ .71	$ .52
Net income	**$ .61**	$ .51	$ .52	$ .39	$ .82	$ .80	$ .59	$ .53	$ .90	$ .95	$ .52
Dividends	**$ .53**	$ .50	$ .50	$ .50	$ .45	$ .35	$ .20	—	—	—	—
Cash Flow	**$ 2.40**	$ 2.08	$ 2.05	$ 2.32	$ 2.40	$ 1.95	$ 1.63	$ 1.43	$ 1.35	$ 1.26	$ 1.12
Shareholders' equity	**$ 14.13**	$ 14.03	$14.95	$14.93	$14.88	$14.46	$13.97	$13.52	$11.18	$10.02	$ 9.07
— based on number of common shares outstanding at year end of (000's)	**10,570**	10,555	7,763	7,760	7,395	7,343	7,267	7,138	3,468	2,872	2,872

Trizec Corporation Ltd. and Subsidiary Companies

DIRECTORS

*Edward M. Bronfman
Toronto, Ontario
Chairman of the Board
Edper Investments Ltd.

*Peter F. Bronfman
Toronto, Ontario
President
Edper Investments Ltd.

*†Jack L. Cockwell
Montreal, Quebec
Vice President
Mico Enterprises Ltd.

*†‡E. Jacques Courtois, Q.C.
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Lawyer, Courtois, Clarkson, Parsons & Tétrault

*J. Trevor Eyton, Q.C.
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Lawyer, Tory, Tory, DesLauriers & Binnington

Leo Goldfarb
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Trizec Corporation Ltd.

The Rt. Hon. the Viscount Hardinge, M.B.E.
Montreal, Quebec
Director
Greenshields Incorporated

*†‡Stanley H. Honeyman
London, England
Chief Executive
English Property Corporation Limited

*John M. Keyworth
London, England
Director
English Property Corporation Limited

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Toronto, Ontario
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*Harold P. Milavsky
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President and Chief Executive Officer
Trizec Corporation Ltd.

†Stanley E. Nixon
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*Member of Executive Committee
†Member of Audit Committee
‡Vice Chairman of the Board

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Chairman of the Board

Harold P. Milavsky
President and Chief Executive Officer

Leo Goldfarb
Executive Vice President and
Chief Operating Officer

Kenner C. Ames
Senior Vice President — Shopping Centres

Jack Rabinovitch
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Senior Vice President
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